



中国棉花协会
CHINA COTTON ASSOCIATION

CHINA COTTON REPORT

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December-2013



China Cotton Monthly Review – December

In the year of 2013, influence of global financial crisis was still perceivable in China. Cotton demand shrank due to raw material structure adjustments undertaken by Chinese textiles to confront the current difficulty. Cotton price however, maintained at relatively profitable level for growers, being supported by national cotton reserve policy, which acted as a double-edged sword and reduced market activity. The No.1 Document of CCP & State Council in 2014 announced cotton target price subsidy trial in Xinjiang, aiming at decoupling the cotton price with government subsidy, and returning the price generating power to market.

Cotton supply: cotton acreage in China continued to decline in 2013, which was 69.93 million mu (4.66 million hectare), down by 6.6% than last year according to China Cotton Association statistics. The general weather conditions of this year was in the upper level, though the unit yield not as good as last year, and national lint output was 6.77 million ton, 12.5% down Y/Y. According to National Bureau of Statistics (NBS), national lint production was 6.31 million ton, 7.7% down over the year. Cotton import of 4.15 million ton in 2013 was the second high in history, 19.2% less than last year; the full duty import witnessed noticeable growth. By the end of November, 2013, reserve cotton released for auction and by the end of December, 257,000 ton of cotton was sold from reserve stock.

Cotton demand: in the context of inactive global consumption especially in EU and Japan, increasing labor cost, appreciation of RMB and large cotton price gap home and abroad, Chinese textile competitiveness weakened relatively. According to NBS, industrial added value by textile enterprises above designated size in 2013 increased by 8.7%, the expansion rate reduced by 3.5% Y/Y; major textile production continued to increase, including 41.34 million ton of chemical fiber, up by 8.1%, and yarn production of 30 million ton approximately; export value of textile and apparel was 284 billion USD, 11.4% more than last year, the increase rate was 8.6% faster Y/Y; domestically total value of retail sales for apparel and accessory, knitting textiles achieved at 1.14 trillion Yuan, 11.6% more than last year, increase rate of which reduced by 6%.

Cotton market: domestic cotton market price movement was quite limited due to the dominant reserve policy in 2013. During the period before new cotton season, which commenced since 1st September, CC Index328 moved between 19,100 – 19,400 Yuan per ton. After the implement

of new cotton quality system entering the new season, CC Index 3128B changed between 19,400- 19,700 Yuan per ton.

Cotton reserve: since the start of 2013/14 season, reserve purchase dominated cotton market. By 31st December, the 2013/14 seasonal reserve purchase accomplished by 4.85 million ton, around 70% of the seasonal yield. Supported by reserve, seed cotton procurement processed slower than last year due to postpone of the harvest and the price was higher compared with the corresponding time last year. By the end of 2013, national seed cotton yield was sold by 87.5%, 5.2% slower Y/Y. During September to December, average buying price from big ginner for seed cotton in major standard quality was 8.78 Yuan per kilo, 3.4% up Y/Y. During the reserve business, 9 trade frauds for selling reserve cotton back to reserve, 11 groups of reserve cotton rejecting list was exposed by China Fibre Inspection Bureau by the end of December.

Cotton planting intention in 2014: according to December planting survey conducted by CCA, nearly 50% cotton growers intend to maintain last season's acreage, 40% planned to reduce or still undecided, only 10% growers prepared to increase it for the new season. According to cotton growers in survey by weighted mean, planting intention reduced by 8.9% nationwide. Analysis believes cotton planting cost increase and low comparative profit with other crops together offset the limited buying price rising, therefore, inland acreage continued to reduce while Xinjiang stayed with better profit.

On 19th January, No.1 Document from national central government "Projection on Comprehensively Deepening Rural Reform and Advancing Agriculture Modernization" was announced. According to the document, Chinese government will adhere to market price founding mechanism, reform on decoupling agriculture product price with government subsidy, build target price system for agriculture product, provide subsidy to consumers under high market price and to producers under market price lower than target price. In 2014, Xinjiang cotton target price will be launched for trial.

Main Indexes in December

| Category | | Dec. | M/M | Y/Y | 2013 Running total | Y/Y | 2013/14 Running total | Y/Y | |
|--|--|--------|--------|-------|--------------------------|--------|-----------------------------|--------|------|
| Price | CC Index 3128B avg. price (Yuan/ton) | 19523 | -0.8% | - | - | - | 19570 | - | |
| | FC Index Avg. price | 91.80 | 2.9% | 6.9% | 93.98 | 1.8% | 92.88 | 8.1% | 8.5% |
| | | 14360 | 2.7% | 4.1% | 14875 | 0.1% | 14569 | 5.1% | 5.4% |
| | | 15283 | 1.8% | 4.1% | 15663 | 0.4% | 15439 | 4.7% | 4.9% |
| | ZCE nearby contracts average settlement price(Yuan/ton) | 19290 | -2.4% | -4.1% | 20164 | 3.6% | 19938 | 2.5% | |
| | CNCE nearby contracts average settlement price(Yuan/ton) | 19173 | -0.6% | -0.9% | 19174 | 0.2% | 18911 | -0.5% | |
| Reserve | Reserve Purchase (10 thousand ton) | 178.65 | -9.7% | 5.5% | 599.85 | -5.0% | 484.99 | -9.5% | |
| | Reserve Release (10 thousand ton) | 23.06 | - | - | 397.87 | 706.0% | 25.73 | -47.9% | |
| Import & Export | Cotton Import (10 thousand ton) | 60.86 | 251.6% | 14.4% | 414.94 | -19.2% | 112.42 | -18.0% | |
| | Cotton Yarn Import (10 thousand ton) | 17.29 | -1.8% | -3.2% | 209.97 | 37.4% | 73.26 | 26.8% | |
| | Textile & apparel export (100 million USD) | 259.97 | 6.3% | 7.9% | 2839.9 | 11.4% | 1011.25 | 8.8% | |
| Commercial cotton storage (10 thousand ton) | | 33.13 | 31 | -6.4% | -16.0% | | | | |

China Cotton Import Volume – December

(10,000ton)

| | Dec. | Change over Nov. | Change Y/Y | Running total of 2013 | Change Y/Y | Running total of 2013/14 season | Change Y/Y |
|--|-------|------------------|------------|-----------------------|------------|---------------------------------|------------|
| Gross | 60.86 | 251.5% | 14.4% | 414.94 | -19.2% | 112.42 | -18.0% |
| Trade Means | | | | | | | |
| General Trade | 19.47 | 176.0% | -6.1% | 176.73 | -36.0% | 39.4 | -43.2% |
| Processing with Supplied Materials | 0.63 | 3073.2% | 649.6% | 1.33 | 219.1% | 0.85 | 116.1% |
| Processing with Imported Materials | 25.54 | 358.6% | 17.1% | 93.08 | -0.7% | 39.52 | -8.8% |
| Goods in Bonded Area | 6.63 | 270.2% | 46.5% | 55.69 | -3.4% | 13.49 | 46.9% |
| Logistics Goods in Custom Special Control Area | 8.59 | 198.4% | 41.7% | 88.1 | 2.6% | 19.16 | 29.3% |
| Major Sourcing Countries | | | | | | | |
| US | 6.97 | 203.9% | -12.0% | 115.17 | -21.3% | 15.01 | -43.6% |
| India | 34.22 | 3971.7% | 155.9% | 119.35 | 792.5% | 36.78 | 175.0% |
| Australia | 4.46 | -42.3% | -61.6% | 79.69 | -3.6% | 30.53 | -27.1% |
| Uzbekistan | 3.34 | 1564.1% | -31.7% | 26.36 | 439.5% | 4.66 | -4.6% |
| Brazil | 3.41 | 179.4% | -52.3% | 15.96 | -55.6% | 5.62 | -74.1% |

COTTON FOCUS



To meet textile demand, **state reserve cotton release** started since 28th November, 2013 and would close by 31st August, 2014, carried out China National Cotton Exchange (CNCE) to cotton textiles at price of 18,000 Yuan per ton for standard grade. The first batch would be 2011/12 seasonal cotton, which has already passed exit-warehouse inspection conducted by China Fibre Inspection Bureau (CFIB) under previous cotton quality system would be cleared based on old value difference, and the rest have to be tested under the new cotton quality system and cleared under new value difference. The simultaneous movement of reserve purchase and release increased risks on trade fraud, which shall be supervised from aspects of purchase qualification control, goods delivery, transportation, usage and cotton processing by parties concerned, measures were also taken on report and punishment mechanism.

By the second week of reserve release commencement (2nd/6th December), 578 textile companies had registered and qualified for auction and 215 of them participated in the auction. By 6th December, 152,500 ton of reserve cotton had been offered for sale and 92,700 ton was sold, including 71,300 ton of domestic cotton with transaction percentage of 54.6% and 21,400 ton of import cotton with transaction percentage of 98.3%. **Impediments for more active reserve stock buying from mills** include: first, for reserve auction, security deposit required of 500,000 Yuan is too high for some middle and small size companies; second, cotton of 2011/12 season sold by reserve at the beginning disappointed mills with expectation for high quality cotton. The statistics showed that for the season of 2013/14, reserve cotton purchase totaled 3,539,200 ton, including 1,573,400 ton from Xinjiang and 801,210 ton from inland, and 1,164,590 ton via large contract by key enterprises.

Cotton yarn import during recent two years witnessed large increase while the raw cotton import moved toward the opposite direction. During January to November 2013, China imported cotton yarn of 1,927,000 ton, 41.8% up over the corresponding time last year, at the same time, cotton import was 3,541,000 ton, 23.1% down over the corresponding time last year. Compared with raw cotton, cotton yarn import has no restriction on quota, no price gap domestic and abroad, therefore, domestic mills preferred and imported large volume cotton yarn in relatively lower price to reduce cost. Pakistan and India were the largest cotton yarn exporters to China, followed by Indonesia, US and Thailand.

Recently, Ministry of Finance of China announced the tariff plan for 2014, as for cotton the **sliding tariff** and import quotas will continue to be carried out. Besides the 894,000 ton under 1% tariff, cotton import shall be levied by sliding tariff as before, and the modification compared with previous year is the threshold price will be upgraded by 1,000 Yuan per ton, relevant parameters in the calculation formula are also modified for higher tariff level as a result. Under current exchange rate, when the foreign cotton offer price is between 55.5-111 cent/lb., additional tariff shall be applied from 0 to 431 Yuan, the increase degree shall drop gradually as price goes up. This modification shall affect middle or low grade import cotton more than higher grade one.

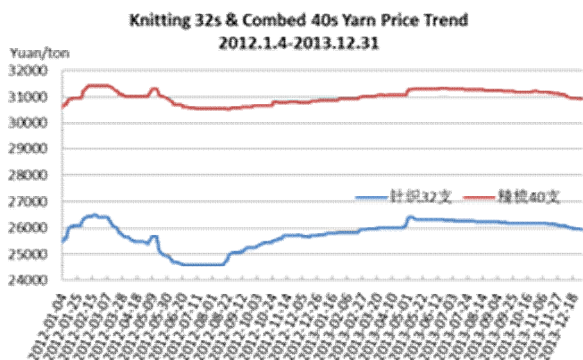
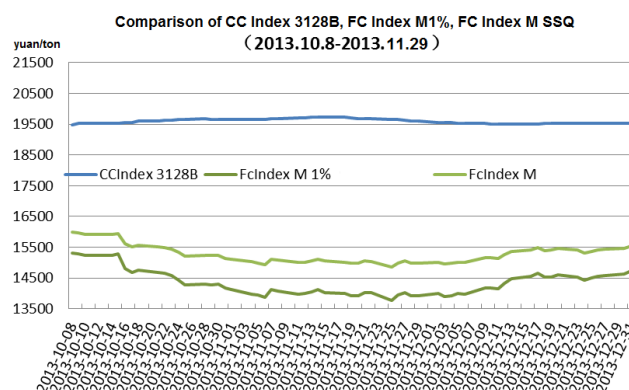
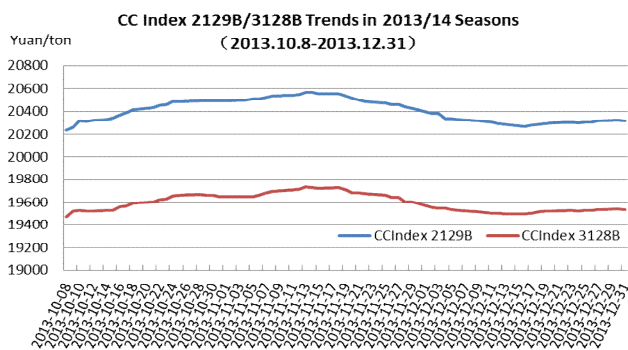
Three provinces of Hubei, Hunan and Jiangxi in Yangtze cotton region confronted drought, low temperature and

lasting rain in the critical growing stage of cotton plants during this season, therefore, cotton quality there seldom met reserve purchase standard, the seed cotton market was in a stalemate. In order to protect cotton growers' interests, **reserve purchase lowered quality requirements in these three provinces** for the color grade minimum to light spotted cotton of grade three and the length to 26 mm, all other requirements unchanged and Cotton Quality Value Difference of China Cotton Association shall be applied; specific reserve purchase volumes are constrained as following: 460,000 ton for Hubei Province, 260,000 ton for Hunan Province, 118,000 ton for Jiangxi Province, these numbers are decided according to their cotton output estimate of 2013/14 season. By 27th December, 291,800 ton of cotton in Hubei had been sold to reserve, 6.25% of national reserve purchase, 85,300 ton in Hunan for percentage of 1.82%, and 67,500 ton in Jiangxi, 1.44% of the total.

In December, 2013, China Cotton Association Cotton Farmer Cooperation Branch and Xinjiang Huatai Cotton Cooperative conducted survey on **2014 cotton planting intention** to 2,724 units of cotton growers in 310 counties in 12 inland provinces and Xinjiang municipality. According to the result of the survey, average cotton planting intention reduced by 8.9% nationally, a third year decline in succession. Among the 2,724 units of growers, 25.5% projected to reduce the acreage, 10.8% planned to increase, 49.7% unchanged, and 14.1% undecided. Calculation based on last year's cotton acreage statistics of CCA, the 2014 national cotton planting acreage estimated to be 63.72 million mu (4.24 million hectare).

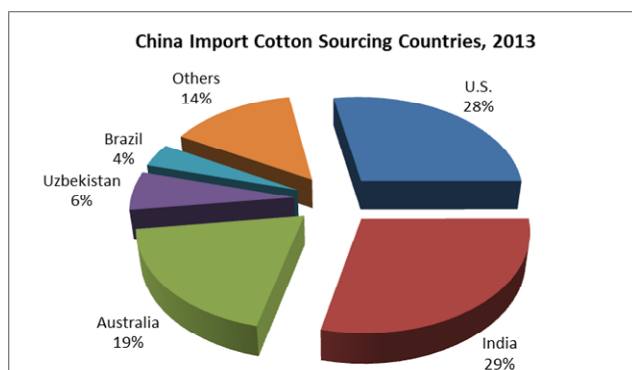
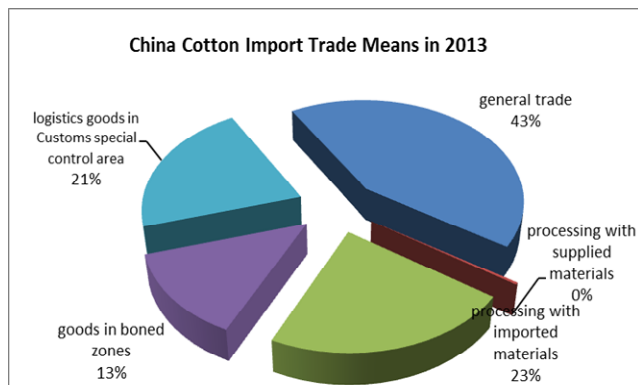
CC Index declined during the first week of the month, after the sliding duty modification, spot market responded positively, by the end of the month, CC Index 3128B settled at 19,534 Yuan/ton, 69 Yuan down over last month; the average monthly price was 19,523 Yuan per ton, 153 Yuan down from the month.

as for the import cotton price, FC Index M has monthly average price of 91.80 cent/lb, 2.56 cent up over the month, which was 14,360 Yuan/ton under 1% tariff, 5,163 Yuan down over domestic equivalent, and 15,283 Yuan/ton under sliding duties, 4,240 Yuan down over domestic equivalent.

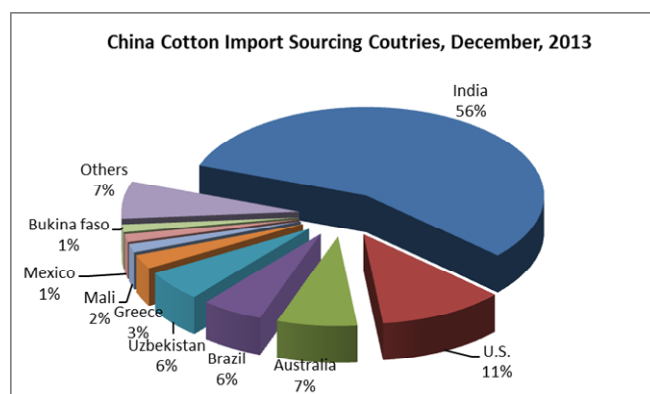
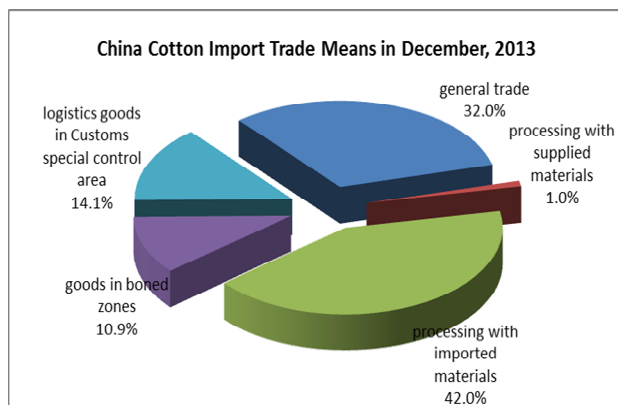


During the year of 2013, most domestic lint was stocked by state reserve, keeping price gap home and broad at rather high level. Due to very limited resource available in market, mills turned to reserve cotton and **import cotton** as main replenishing channel. According to Customs, China imported cotton of 4.15 million ton, down by 19.2% over the year in 2013, the second highest record in history; the annual average import price was

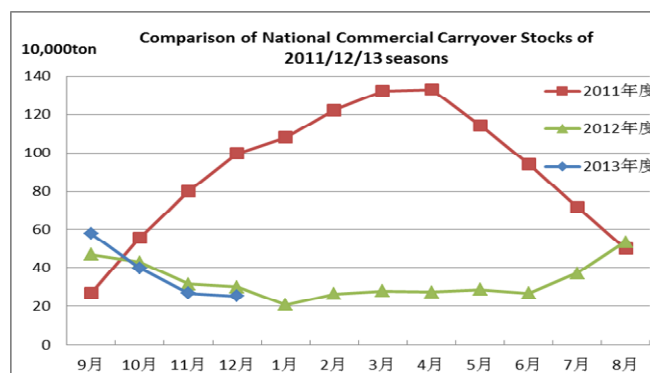
2,035 USD/ton, 11.4% down Y/Y. The most eminent change was full duty import, which double the last year record to 660,000 ton due. General trade remained the major mean for import and India cotton moderately surpassed US to be the first resource.



In December, cotton import soared due to the sliding duty expiration, low grade reserve release, and new harvest in India. According to Customs, China imported 608,600 ton of cotton, 435,500 ton more than last month, increased by 251.6% than last month, while 14.4% up Y/Y; the average price was 2,102 USD/ton, 6% down over the month, 8% up over last December. The first four months import of 2014/15 season totaled 1,124,200 ton, 18% less Y/Y.



By the end of December, reserve purchase of the season totaled 4.85 million ton, 70% of the seasonal yield. **Commercial carryover stock** reduced continually. According to survey conducted by CCA cotton warehousing and logistics branch to 168 member warehouses, by the end of December, 2013, commercial carryover stock was 252,000 ton, comprising of 234,000 ton in inland warehouses, and 18,000 ton in Xinjiang. The current commercial stock was reduced by 15,000 ton than last month, and 48,000 ton less Y/Y. The stock was consisted of 41% of import cotton, 38% of Xinjiang cotton and 21% of inland cotton. Calculation of national stock was 310,000 ton, 20,000 ton less over the month. During this month, 12,000 ton commercial cotton was dispatched to inland via railway from 25 Xinjiang transfer stations.



Reserve cotton release and import cotton arriving ports increased raw materials stock of textiles in December. Textiles purchased cotton in advance for the coming holidays next month which will suspend buying. Inventory of finished yarn and cloth also increased due to the sluggish sales.



China and Africa Cotton Cooperation Made Progress

China's Ministry of Commerce and African four cotton countries (Benin, Burkina faso, Mali, Chad) announced their cooperation result jointly in Bali Island on 3rd, December, which was recognized and praised by Mr. Roberto Azevêdo, secretary-general of WTO.

Under the cooperation framework and joint declaration of the 8th ministerial conference of WTO, China endeavored at helping these four cotton countries to build capacity on cotton production, processing, storage and trade. The cooperation includes aspects of infrastructure construction, farming materials assistance, cotton training and seminar, technical and equipment assistance, transportation and company cooperation. This cotton program involves 20 million USD provided by China, starting from 2011 and would last to the end of 2014.

Attention: Cotton Bale Trafficking in Cotonou port, Benin, Africa

Recently, China Cotton Association received news from CICCA, that a massive trafficking of cotton bales takes place in Cotonou, Benin, which was first reported by AFCOT. According to AFCOT,

“it has been confirmed that the containers discharged at port(s) of destination, show a huge disparity of weight between the certified shipping weights and the landed weights. We have heard that up to half of the bales were missing in some containers.”

CCA asks attention shall be paid by all member companies to strengthen risk management and report immediately to CCA, if similar accident happened in their cotton import business.